

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Notice of Price Adjustment

Docket No. R2012-9

PUBLIC REPRESENTATIVE COMMENTS
(July 17, 2012)

I. INTRODUCTION AND BACKGROUND

On June 27, 2012, the Postal Service filed a notice to temporarily reduce prices for several market dominant products within First-Class Mail and Standard Mail¹ through the Mobile Shopping Promotion. The Postal Service proposes to provide commercial mailers an upfront two percent discount on the prices for First-Class Mail and Standard Mail letters, flats, and cards (presort and automation) that include qualifying mobile barcode or similar print technology inside or on the mailpieces. Notice at 1.

This is the third mobile barcode discount promotion. The Postal Service states that the first promotion (2011 Promotion) was successful since customer participation greatly exceeded the Postal Service's expectations. Notice at 4. The primary goal of the first mobile barcode promotion was to generate awareness of how mobile technology could be integrated into mail campaigns. *Id* at 3.

The second such promotion, the Mobile Commerce and Personalization Promotion (2012 Promotion), is ongoing. With this promotion, the Postal Service encourages mailers to integrate more advanced uses of mobile technologies into their direct mail campaigns. Notice at 4-5. In particular, the 2012 Promotion seeks to encourage mailers to adopt more advanced techniques in the areas of mobile

¹ United States Postal Service Notice of Market-Dominant Price Adjustment, June 27, 2012 (Notice).

commerce and personalization. Notice at 5. With this promotion, the Postal Service reduced the discount and narrowed the qualification requirements.

The Mobile Shopping Promotion has an even narrower focus. The Postal Service proposes an upfront 2-percent discount on First-Class Mail and Standard Mail letters, flats, and cards (presort and automation) that include, in or on the mailpiece, a mobile barcode (or other print/mobile technology). *Id.* This technology must direct the recipients of the mailpieces to a mobile-optimized website that allows them to purchase an advertised product on the mobile device. The Postal Service also proposes to allow mailers to qualify for an extra 1-percent rebate on their qualifying mailings, if a portion of their orders is fulfilled via Priority Mail® between November 9, 2012 and December 31, 2012. *Id.* at 1-2. In order to claim the rebate, mailers would be required to demonstrate that the number of Priority Mail packages delivered to customers exceeded 0.5 percent of the total number of qualifying mailpieces sent during the Mobile Shopping Promotion. *Id.* at 7. The Postal Service will also require the mailers to agree to participate in a survey at the end of the promotion period. *Id.* at 8.

II. COMMENTS

The Public Representative commends the Postal Service for exercising its pricing flexibility under the Postal Accountability and Enhancement Act of 2006 to find innovative ways to increase the value of mail. Nonetheless, the Public Representative is concerned that (1) the Mobile Shopping Promotion will provide discounts to mailers who have determined that this technology is in their own economic interest, many of whom have applied the technology prior to the promotion; (2) the Mobile Shopping Promotion discount is available for the Standard Mail Flats product despite its non-compensatory rates; and (3) the rebate encouraging the use of Priority Mail is not properly attributed to Priority Mail.

Repeated Promotions

With a promotion of this kind, there is always the possibility that discounts are given to mailers who were already doing the desired activity prior to the promotion. With regards to the mobile barcode, as more mailers become familiar with this technology, the greater the number of mailers that will have integrated this technology into their direct mail campaigns for reasons of their own. This promotion will pay these mailers discounts for behavior they are already engaged in. This is the third promotion encouraging the use of a mobile barcode. Those mailers that have participated in the previous promotions are already aware of the merits of using a mobile barcode to integrate print media with the on-line experience. The Public Representative acknowledges that each promotion is more targeted than the previous; nonetheless the Public Representative cautions that at some point the revenue loss from discounts outweighs the benefits. For mailers, most of the implementation cost associated with mobile barcodes is the technology cost. Once the technology for a consumer to engage with an advertiser is in place, the additional cost of adding mobile barcodes to mail pieces is minimal. The mailers that have already invested in the upfront cost of enabling the use of mobile barcode technology have an incentive to use it with or without a discount. Additionally, as this technology becomes more popular, consumers may have an expectation that retailers include mobile barcodes in their print communications. The Public Representative hopes the Postal Service administers a survey at the end of the promotion period that will shed some light on whether mailers plan to continue using this technology beyond the promotion period. The Postal Service should also track how many new mailers the promotion has attracted.

Standard Mail Flats

In its FY 2010 Annual Compliance Determination (ACD), the Commission found the Standard Mail Flats product violates 39 U.S.C. 101(d), which provides that postal rates “shall be established to apportion the costs of all postal operations to all users of the mail on a fair and equitable basis.” In its FY 2008 ACD and in several subsequent proceedings, the Commission discussed the disparity between Standard Mail Letters

and Standard Mail Flats with regards to their institutional cost burden². This promotion, although small in scale exacerbates the situation. Setting the discount for the use of Priority Mail aside, qualifying Standard Mail Flats would receive a \$0.364 per piece discount compared with only \$0.191 per piece for qualifying Standard Mail Letters, increasing the disparity.

Also, the Public Representative questions the wisdom of including a loss making product in the Mobile Shopping Promotion. Over the past four fiscal years, the Standard Mail Flats product incurred a net loss of \$2.1 billion. In addition, the product continues to lose more money, per piece, each fiscal year. In FY 2011, contribution per piece from the Standard Mail Flats product was negative 9.5 cents. The Postal Service estimates that the Mobile Shopping Promotion could reduce Standard Mail Flats revenue by an additional \$0.4 million to \$0.8 million.

The Postal Service acknowledges that the Mobile Shopping Promotion will have the short-term effect of lowering postage revenues from Standard Mail Flats. However, it contends that the long-term effect will be to encourage future revenue growth by improving the value of direct mail to advertisers. Notice at 10. The Postal Service believes that initiatives such as the Mobile Shopping Promotion will help to preserve and improve product volumes in the future, and are essential to any effort to increase Standard Mail Flats' attributable cost coverage. Notice at 12. The Postal Service also asserts that the removal of Standard Mail Flats from the Mobile Shopping Promotion would unnecessarily complicate the participation of certain flats mailers, thus reducing the Promotion's potential impact. Notice at 12.

The Public Representative appreciates that the Postal Service is trying to increase the value of the mail to help ease the pain of future rate increases for Standard Mail Flats. Nonetheless, this is the third promotion of its kind. Catalogers who took part in the previous promotions should already be aware of the benefits of this technology.

² FY 2008 ACD at 61; see also FY 2009 ACD at 86; Docket No. R2009-2, Order No. 191 at 52-53, and Docket No. R2010-2, Order No. 675 at 31.

For the catalogers that chose not to participate in the previous promotions because it didn't make sense to them financially, the current promotion isn't likely to have different effect. While the Public Representative agrees that catalogers should consider adopting this technology, they will likely do so because it may lead to higher returns for them. As ACMA has pointed out on numerous occasions, the catalog industry is struggling. It makes sense that catalogers should experiment with technologies that may improve the outcome for their industry. But, they shouldn't do it at the expense of other mailers. The Commission should exclude Standard Mail Flats from the promotion.

Priority Mail-related Rebate

The Mobile Shopping Promotion involves both market-dominant products and a competitive product. The Postal Service proposes to give qualifying mailers a 1-percent rebate on their qualifying mailings, if a portion of their orders is fulfilled via Priority Mail. The Postal Service contends that the short-term investment that the Postal Service expects to make will help drive mailer awareness and use of Priority Mail. Notice at 10. The inclusion of the discount encouraging the use of Priority Mail raises several issues regarding the Postal Service's filing. If this part of the promotion was presented on its own, the rebate would be considered a price reduction for Priority Mail. The Postal Service would have been required to file the promotion under the rules for competitive products. The Postal Service would have been required to demonstrate compliance with 39 U.S.C. 3633(a)(1) and (3). Since the promotion involves both market-dominant products and a competitive product, it may be less clear what rules apply. Nonetheless, the Postal Service should have addressed compliance with 39 U.S.C. 3633(a)(1) and (3) in its filing. In practicality, the scale of the promotion has little effect on compliance with the above provisions.

Pursuant to 39 U.S.C. Section 3633(a)(2) the Postal Service is mandated to "ensure that each competitive product covers its costs attributable." As such, it is essential that costs incurred as a result of a competitive product are properly attributed to that product. An investment intended to encourage the use of Priority Mail is clearly

attributable to Priority Mail. The Commission should ensure that the discount given to mailers for their use of Priority Mail, are properly attributed to Priority Mail. The amount of the rebate does not vary directly with Priority Mail volume. Therefore, a practical way to allocate the amount paid out in rebates for using of Priority Mail would be to assign the total rebate paid out to the Priority Mail product as a "product specific cost." Another possibility would be to reduce Priority Mail revenue by the amount of the total rebates paid out by the Postal Service.

CONCLUSION

The Commission should approve the Mobile Shopping Promotion in part. The Commission should modify the promotion to exclude Standard Mail Flats. Additionally, the Commission should ensure that costs attributable to Priority Mail are properly assigned to Priority Mail. As part of its approval, the Commission should direct the Postal Service to study the use of mobile barcode technology by existing mailers.

Respectfully Submitted,

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